

**PREFERENTIAL PROCUREMENT -
A NEEDS ASSESSMENT OF LARGE SCALE ENTERPRISES
&
WHAT CONSTITUTES BEST PRACTICE:
A SOUTH AFRICAN PERSPECTIVE**

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SUMMARY

EXECUTIVE SUMMARY

The purpose of this study was to identify best practice suggestions and solutions around the needs and challenges of large-scale enterprises in the context of the Preferential Procurement component of the Broad-Based Black Economic Empowerment Act.

Six entities were surveyed, one based in Richards Bay and five in Durban. Of the six entities, two would be characterised as public sector and four private sector. The latter comprised a diverse grouping of different industries, ownership and size, but the defining characteristic was a high BEE rating or the intention of getting a high rating.

The study identified 10 key challenges that preferential procurement needs to address:

1. Legislative and Regulatory Framework
2. Industry Framework
3. Entity Attitude
4. Driving the Process
5. Risk of Non-Compliance
6. Stakeholder Risk Assessment
7. Policies and Processes
8. Targets
9. Staffing
10. 3rd Party Involvement

The most significant findings that emerged were:

1. The surveyed entities all recognize that it is a business imperative and it is this mindset which should drive the entity's attitude
2. In interacting with suppliers, they should be encouraged rather than forced or coerced to comply
3. Comprehensive information on suppliers will be absolutely critical in driving any firm's preferential procurement activities
4. Business and management skills continue to be the largest impediment to SME development and hence their inability to be mainstreamed into the formal economy by partaking in preferential procurement opportunities
5. Entities who display a strong emphasis on enterprise development and invest time and effort into aspirant suppliers along a variety of dimensions, but underpinned by sound business principles, will be more successful in their efforts than those who do not.
6. A collaborative approach is essential to ensuring that the B-BBEE intentions are realized

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1. Background to this Study

1.1. Introduction

The Broad-Based Black Economic Empowerment Act No. 53, 2003 had the effect of turning the spotlight onto corporate South Africa's contribution to redressing the economic and social imbalances in the country. Essentially through a system of measurement of compliance, the intention is to ensure that any entities who wish to meet qualifying criteria for licences or concessions, supply goods or services to any organ of state or public entity, acquire state-owned enterprises and enter public private partnerships (PPP) would have to demonstrate their commitment to Black Economic Empowerment. Simply put, the higher the score the easier it will be to do business directly or indirectly with National, Provincial or Municipal Government and State Owned Enterprises (SOEs).

1.2. The B-BBEE Codes

One of the key foundations of the Act was to empower the Minister of Trade and Industry to issue the *Codes of Good Practice*. The latter would provide all institutions in South Africa with an objective framework to measure their contribution to B-BBEE along seven elements, rather than focusing solely and exclusively on ownership as a criterion. These are summarized below:

Code	Element	Weighting
100	Ownership	20
200	Management Control	10
300	Employment Equity	10
400	Skills Development	20
500	Preferential Procurement	20
600	Enterprise Development	10
700	Residual Element	10
		<hr/> 100 <hr/>

(At the time of this report being written, the codes had not yet been finalised and hence the above weightings may be subject to change). It is clear from the above that preferential procurement is viewed as being a key contributor to B-BBEE.

1.3. Preferential Procurement

The preferential procurement component is dealt with under Section 9(5): Codes of Good Practice and identifies three criteria, namely BEE Procurement Spend from Suppliers, Qualifying Small Enterprises and Exempted Micro Enterprises. The weighting score given to each criteria is 15, 4 and 1 respectively, which when combined equate to the overall Preferential Procurement score of 20.

In analyzing the government's intention behind this code, it is important to note that companies will have to give recognition to the following:

- a. *Detailed Analysis of Procurement Spend.* Companies will have to distinguish between criteria of suppliers and categories of spend. Insofar as the latter is concerned, some commentators have referred to this as non-discretionary and discretionary spend. For example, suppliers classified as non-discretionary would include government and foreign-based suppliers where there is no local substitute available. The non-

- discretionary suppliers are then excluded from the calculation of Total Measured Procurement Spend.
- b. *Small and micro enterprises* should be included in the procurement process.
 - c. *The process is target driven.* Taking into account the different criteria, government has set BEE Procurement Spend as a percentage of Total Measured Procurement Spend targets at 70% for Suppliers, 15% for Qualifying Small Enterprises and 5% for Exempted Micro Enterprises.

2. Purpose of this Study

The purpose of this study is twofold:

- a. A needs assessment of and challenges faced by large entities within the context of B-BBEE preferential procurement. Essentially factors influencing the demand side of the procurement equation.
- b. Following on from the latter, the study then hopes to make a fundamental contribution to the understanding of what would constitute best practice insofar as preferential procurement is concerned. These ideas of best practice will stem from experience outlined by the surveyed entities and observations and conclusions drawn by the researcher.

It should be recognized that this study is exploratory in nature. Its intention was not to seek the broad based opinions and insights of as many companies as possible, but rather to intensively interview a small selected cross section of entities based in Durban and Richards Bay.

At the outset, it must be stated that this study is not to provide a comprehensive overview or analysis of the B-BBEE codes in general or the preferential code of good practice in particular. Whilst it also does not intend to outline a detailed 'how to manual', it certainly provides some useful insights to any private or public sector organization in formulating and implementing a preferential procurement strategy.

3. Preferential Procurement Dynamics

3.1. Some International Experiences

What are often generally termed 'affirmative action' policies are not unique to South Africa, nor is the negative sentiment expressed towards them.

For instance, in a recent article entitled "preferential programmes and despairing disparities"¹, Raghu Dayal, the former Chairman and Managing Director of Concor, India, argues how Malaysia's focus on *bhumiputras* (sons of the soil) and South Africa's BEE policies have only benefited the elite. He also refers to Thomas Sowell², who has studied and written widely on affirmative action and in 2004, published a seminal book on the subject. He notes, "Sowell refers to evidence that benefits of affirmative action are sharply negative" using examples in Tamil Nadu, Malaysia, Sri Lanka and a small minority of African-Americans in the USA. According to Dayal, the point being made by Sowell is that "Preferential Programmes, even when explicitly designed as 'temporary', have tended not only to persist but also to expand in scope. What is further revealing is that, within the groups designated by the government as recipients of preferential treatment, the benefits have usually gone disproportionately to those members already well placed and more fortunate".

¹ Dayal, R. *Preferential programmes and despairing disparities*, The Hindu Business Line, 15 August 2006

² Sowell, T. *Preferential Policies: An International Perspective and Affirmative Action Around the World: An Empirical Study* (2004)

What is useful to consider, is the life cycle of the US experience of what was initially referred to as purchasing from Minority Business Enterprises (MBEs) and more recently ‘supplier diversity initiatives’. As far back as 1978, the US Federal Government passed (Public Law) PL95-507 that required any firm receiving a contract in excess of \$500 000, or \$1 million for a construction contract, submit a MBE subcontracting plan. The initial emphasis grew out of a social responsibility emphasis. However, in the mid-1990s, some commentators were observing that whilst the Public Law heightened corporate awareness of MBE buying programs, there was a growing recognition, “accelerated by changing demographics, that such programs result in a larger customer base for the corporation’s goods and services. In addition, there is clear evidence that as minorities become economically successful, the entire nation benefits from that success”³.

Looking forward, the economics of this fact become quite staggering. It is expected that the combined buying power of African Americans, Asian Americans and Native Americans will reach \$1.5 trillion in 2008, more than triple its 1990 level⁴. As noted by Business for Social Responsibility (BSR), “While some programs were initially fuelled by mandates related to government contracts, current innovation reflects growing corporate awareness of the business and community benefits of these efforts. Business leaders are creating a more integrated approach to respond to growing ethnic markets, shifting employee demographics and increased demands on their supply chain”.⁵ The lesson that seems to be learnt from this, is that preferential procurement activities, which are driven by a business model, are more successful in achieving the desired outcome than a social responsibility emphasis.

In listing key implementation steps in mounting a diversity programme, BSR make the following important point, “Successful minority- and women-owned business development programs involve the recognition that these efforts are based on business, not charitable, motivations; the setting up of internal structures to support these efforts; and the support and development of key business partners”. Their key steps include:

1. Internal Assessment	Identify business drivers and sources of <i>competitive advantage</i> to target areas for growth
2. Develop Outreach	<i>Work through established organizations</i> already serving the minority- and women-owned business sector as well as community-based organizations. Offer workshops and special events
3. Set Goals and Measures	To ensure <i>demonstrable results</i> and to measure impact on business revenues and potential for growth
4. Workplace Programs	To promote <i>inclusive business relationships</i> and understanding of changing marketplace

Looking at a few (of the many) examples of US experiences, BSR list a number of what they term ‘leadership examples’ of companies, “who represent innovation, higher than average commitment, unusual industry practice or a comprehensive approach to this issue”. Some of the activities include mentoring, community outreach, second-tier development, assisting with development of business plans and executive level training. Companies who report significant

³ Auskalnis, R.J., Ketchum, C.L., Carter, C. *Purchasing From Minority Business Enterprises: Best Practices*, Center for Advanced Purchasing Studies, 1995—Focus Study (Executive Summary Only)

⁴ The Multicultural Economy 2003 America’s Minority Buying Power, Selig Center for Economic Growth, University of Georgia

⁵ <http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=50901>, page 1

business benefits as a consequence of their diversity activities include Dennys, Athlete's Foot, Johnson Controls, Accor and Texas Instruments.

The National Minority Supplier Development Council, Inc (NMSDC) was established in 1972 to provide business opportunities and increased procurement for minority businesses. It now boasts a corporate membership of 3 500 members. The NMSDC's wide range of programmes and services include *inter alia*, certification of minority business enterprises, a national computerized database of more than 15 000 certified minority suppliers, referrals to corporate buyers of minority suppliers "capable of providing quality goods and services at competitive prices, and in a timely fashion".⁶ The NMSDC also offer an annual award, which according to BSR is "regarded as the most significant honor to a major corporation for the utilization of minority suppliers".

Apple Computers provide a web-based user-friendly system of registering in their Apple Supplier Diversity Programme. As stated on their website, "We encourage you to be a part of an important commitment to support Historically Underutilized Business (HUB) development. It makes good business sense and benefits both business and communities we serve".⁷

Looking to the United Kingdom and a public sector example, The City of London, in its Core GLA Procurement Strategy, specifically states in its action plan that it will follow "best practice on nurturing supplier diversity". The Mayor's Vision is "To develop London as an exemplary sustainable world city" and hence one of the key components of achieving this is that London needs to become a prosperous city, "in which all share in the benefits of wealth created in London's dynamic economy".⁸ It is important to note that the first procurement objective stated is to "Purchase goods and services from suppliers that provide best value for money, including through e-procurement". The fourth objective is to "Nurture a wide range of small and medium size enterprises representing London's diverse communities and encourage them to tender for GLA contracts". Best practice would suggest that these objectives are not in conflict with one another.

3.2. What Constitutes Best Practice?

In 1995, the Centre for Advanced Purchasing Studies (CAPS) in the USA undertook a study into what constituted best practice when purchasing from MBEs. "The researchers noted that there were significant dollar award percentages for 15 of the 32 survey questions. These differences strongly suggest their correlation to the success or lack thereof in administering an MBE buying program".⁹ The 15 survey questions and responses are presented in full below:

Question	Overall Response		MBE Performance
1. Does your company have a formal policy regarding minority purchases?	No	13	1.69
	Yes	87	4.03
2. What degree of support do you get from your CEO or President (or equivalent individual) with regard to the MBE program?	No Support	7	1.18
	Slight	17	1.96
	Medium	32	3.00
	Strong	23	4.77
	Very Strong	21	6.04

⁶ http://www.nmsdcus.org/who_we_are/programs.html

⁷ <http://www.apple.com/supplierdiversity/>

⁸ <http://www.london.gov.uk/gla/tenders>

⁹ Auskalnis, R.J., Ketchum, C.L., Carter, C. *Purchasing From Minority Business Enterprises: Best Practices*, Center for Advanced Purchasing Studies, 1995—Focus Study (Executive Summary Only)

3. Does your organization track MBE purchases?	No	7	0.85
	Yes	93	3.95
5. Is a status report of the MBE buying disseminated? - To Buyers? - To Company Management?	No	19	1.47
	Yes	81	4.25
	No	15	1.30
	Yes	85	4.27
7. Does your organization sensitize non-purchasing personnel (requisitioners) on the value of supporting the MBE program?	No	27	1.80
	Yes	73	4.36
8. Do buyers receive any type of training in support of the MBE program?	No	29	2.15
	Yes	71	4.29
9. Are MBE sourcing directories available to each buyer?	No	14	1.49
	Yes	86	4.08
14. Is the buyer's performance with regard to the MBE program a factor in his/her annual performance review?	No	53	2.54
	Yes	47	5.02
15. Do performance reviews of purchasing managers or higher-level individuals include MBE program performance?	No	50	2.38
	Yes	50	5.02
16. Does your organization participate in minority trade fairs?	Never	9	1.14
	1/Yr	19	2.35
	2x/Yr	15	2.46
	3x/Yr	14	3.41
	4x+/Yr	43	5.40
17. Does your organization place ads in minority/other publications to publicize your MBE program?	Never	42	2.32
	1/Yr	13	2.92
	2x/Yr	19	5.60
	3x/Yr	3	2.81
	4x+/Yr	23	5.13
19. Does the customer base of your company influence your MBE program?	No	21	2.39
	Very Little	19	3.01
	Some	29	3.83
	Much	8	2.42
	Very Much	24	5.83
22. Does your company have a full-time MBE coordinator?	No	51	2.72
	Yes	49	4.82
27. Do you use targeted solicitations? (A bid solicitation sent only to MBEs.)	No	72	2.88
	Yes	28	5.96
28. Does your company establish goals for MBE purchases?	No	24	2.60
	Yes	76	4.08

The most significant finding reported pertained to the treatment of MBEs in relation to price, quality, level of service, delivery, EDI capability and ISO 9000 certification. “By overwhelming margins, respondents indicated that established purchasing practices were not being relaxed in order to support an MBE program”. On the occasions that they were relaxed this was only in the case of “certain start-up or developmental situations and that this was not common practice”.¹⁰

It is generally recognized that the procurement function in a company is to acquire materials, services and capital goods (as determined by the relevant need) at the optimum quality, in the most economic quantity, when required, at the lowest possible cost.

¹⁰ Ibid, page 3

A number of best practices themselves have developed around this function, examples being establishment of cross-functional procurement teams, maintenance of supplier relationships, supply chain management, e-procurement and real-time integration of systems (e.g. accounting and production).

Protagonists of preferential procurement often suggest that the latter in fact compromises the achievement of optimal procurement as it will always contradict the main goal of the procurement function, which is to maximize value at lowest cost.

However, as the CAPS study showed, this need not be the case. One of the questions that this study intended to address was the extent to which this sentiment was expressed by the surveyed entities.

3.3. Preferential Procurement – South African Challenges and Possible Solutions

Before reporting on the research findings, it is perhaps insightful to note some independent research and observations regarding the above. In the ICT Charter, Final Draft¹¹, reference was made to “Research conducted on listed entities reveals that of the R515 billion that was targeted to reach BEE accredited companies, R500 billion did not reach them¹²”.

In a previous draft of the ICT Charter¹³ a number of challenges (and possible solutions) round this were noted. These are summarised in a tabular form below:

Challenges	Possible Solutions
Peripheral and Non-Core Procurement – Limit of black supplier appointment	<ul style="list-style-type: none"> • Pre-condition that the majority of core spend should be directed to black suppliers
Non-Discretionary Spend Principle – Allowing exclusion of goods not ordinarily available from black or local suppliers is inherently open to abuse.	<ul style="list-style-type: none"> • No solution offered but noted that it needs to address this issue as it warrants serious attention and creativity
Lack of Suitable Black Suppliers – Due to lack of supplier development, there is a shortage. Also contributes to fronting.	<ul style="list-style-type: none"> • Focus on Enterprise Development • Encourage sub-contracting
Quality of Product and Delivery – Particularly in relation to inexperienced and emerging SMMEs. Problem sometimes attitudinal, but confirms that these concerns are often genuine.	<ul style="list-style-type: none"> • Improved supply agreements that include quality management processes • Purchasers should seek ways to transfer appropriate skills
Preferential Payment Cycles – Not always offered giving rise to adverse cash flow positions	<ul style="list-style-type: none"> • Spell out what payment terms are reserved for black owned SMMEs

¹¹ ICT Empowerment Charter Working Group, *The ICT Charter*, Final Document, November 2004

¹² Wu,C.Jack,V.Lorio,P.Naidoo,C. and Bodigelo,S.2004 *The Affirmative Gap in the South African Economy*, Nedcor BEE Forum, 26 February 2004

¹³ ICT Empowerment Charter Working Group, *The ICT Charter*, Fourth Working Draft, August 2004

Improved Delivery Mechanisms – Government and State Owned Enterprises (SOEs) are largest buyers of ICT products and services in country	<ul style="list-style-type: none"> • Govt, its agencies and all SOEs have an important role to play in ensuring highest possible compliance with the Charter
Inter-sectoral Co-ordination – Goods and services are bought from a variety of sectors	<ul style="list-style-type: none"> • Effective interaction between different sectors • Cross-reference to other sectoral charters and to principles enshrined in B-BBEE Act
Abuse of black SMMEs for tendering purposes – Use black SMME names for compliance when submitting responses to tenders, but do not engage SMMEs when tenders are awarded	<ul style="list-style-type: none"> • Blacklist firms who abuse/exploit SMMEs • SMME forum should play an active role
Allotment of BEE points for tenders – 10 points out of a 100 awarded for BEE compliance too low. White owned businesses can simply offset this by offering better prices	<ul style="list-style-type: none"> • BEE points to be weighted more heavily to 20 out of a 100
Unfavourable pricing from black SMMEs – Due to lack of size and purchasing power, black SMMEs find it difficult to get sufficient discounts	<ul style="list-style-type: none"> • Set aside purchases for SMMEs
Unfavourable Centralised Procurement Practice – Decisions often made in Gauteng thereby excluding other regions	<ul style="list-style-type: none"> • Allocate portions of spend to local BEE companies in different regions
Procurement Commitments Monitoring at All Levels – When large tenders are awarded, tendency only to screen company tendering, whilst they subsequently outsource or sub-contract to white companies or companies who fail to comply to BEE principles	<ul style="list-style-type: none"> • BEE Council to audit procurement practices of companies • Post contractual audits
Original Equipment Manufacturers (OEM) – Black SMMEs almost always excluded from tender process as they cannot compete on any front	<ul style="list-style-type: none"> • Invitations from overseas should provide a local channel for BEE suppliers to be included • Allow for local products to be offered where they meet technical specs • Foreign enterprises to show how assisting with Enterprise Development
Best Practices in Procurement – No published industry best practice models in procurement &	<ul style="list-style-type: none"> • Council to prepare a code of good practice based on established publications & further

absence of an authorised, recognised and industry backed monitoring and accreditation body	research
Increased Access to Procurement Opportunities by Black SMMEs and Black Engendered Enterprises	<ul style="list-style-type: none"> • Set asides especially for gender and youth
Procurement Emphasis – Over emphasis or reliance on equity to exclusion of other elements of B-BBEE	<ul style="list-style-type: none"> • Black companies to be bound by requirements of charter as well
Procurement spend allocated to black-owned SMMEs – Development threat to black SMMEs by white owned firms who become BEE compliant	<ul style="list-style-type: none"> • Set asides for SMMEs

What is interesting to note is that only the challenges were presented in the final draft, with limited indirect references to the solutions. Perhaps the charter did not want to be too prescriptive. Nevertheless it confirmed that the targeted entities were representative of a possible best practice sample as many are implementing the solutions highlighted above.

4. Methodology

It was decided that a semi-structured, personal interview would be the most appropriate research instrument, thereby giving the researcher the opportunity to ask in-depth questions and note the responses. In advance of the interview session, a series of mainly open-ended questions were e-mailed to the designated person to be interviewed, thereby enabling them to prepare. The minimum required questions that the research study was required to report on can be found in Appendix A. In addition the researcher had in mind to develop a framework, which would lend some structure to the concept of addressing preferential procurement. The questions, which formed the basis of the development of the framework, can be found in Appendix B. These questions were formulated using the minimum required questions and the literature survey which had been conducted. It is however important to note that the purpose of these Appendix B questions were simply to prompt the discussion in the personal interview as opposed to the researcher interacting with the respondent on a ‘cold basis’.

The sessions were not tape-recorded, but the questions were addressed at a pace to enable the researcher to make hand-written notes. One entity provided written answers over and above the personal interviews. Being personal interviews also meant that the emphasis given to each question was not always uniform, in other words it was not possible to give equal coverage to all the questions amongst all the surveyed entities. In this regard the researcher had to be mindful of the surveyed company’s reaction to the question. Sometimes a question did not warrant much discussion to their circumstances, for others it was very relevant and hence more discussion entailed. At the end of the interviews, however, the researcher is confident that sufficient responses have been obtained to draw some meaningful conclusions.

A SAIBL representative was also present in interview sessions with four of the entities. In two cases, the entities were interviewed twice. Some organizations also provided the researcher with copies of policy documents and other material, which they deemed were relevant to the study, which he was able to study afterwards. The interviews averaged about two hours.

5. Profile of Entities Interviewed

Six entities were selected, two classified as public sector and four as private sector. Insofar as the latter were concerned, the key characteristic was that they all had a high BEE rating, or had targeted a higher BEE rating for themselves. Further, the private sector organizations are diverse along a number of dimensions, for example, one is foreign owned, two are service and two are manufacturers. One classifies itself as non-profit; another was on the verge of bankruptcy not so long ago. The benefit of this profile confirmed that there were certain factors that repeated themselves time and time again, which in turn identified commonalities for a best practice scenario, irrespective of the type of entity and its circumstances. However, there were some other unique factors, which confirmed that individual circumstances will need to be addressed, in other words there is no 'one size fits all'. This study attempts to give recognition to both of these categories of findings, though not necessarily in any specific order.

This profile is summarised below:

Entity	Rohm & Haas	Richards Bay Coal Terminal	Universal Print Group	Gold Circle Group	Ethekwini Municipality	UKZN
Sector Classification	Chemical Manufacturer & Supplier	Bulk Freight Handling	Commercial Print	Racing & Gaming	Local Government	Education
Primary Ownership	USA owned global company		80% Family 20% Kagiso	3 000 members through 4 racing clubs	Public Sector	Public Sector
Turnover	R350m (SA)	R350m	R550m	R1.8bn	Capital Budget R3bn	n/a
Number of Employees	65	500	480 perm 150 temp	2 126	20 000	
Main Products Supplied	Coatings raw materials, surface finishes etc	Coal Export	Directories, publications, business, self-adhesive labels	Racing & Gambling	Municipal services, infrastructure, housing	Tertiary Education
No of Suppliers		1 500 active of 2000	1 000	3 000	5 000 active of 18 000	6 000
Person Interviewed	Financial/HR Director & Purchasing Mgr	COO, 3 GMs & Materials Mgr	Group MD Group Marketing Mgr	Executive Director	Deputy Head: Business Support	
Empowerment Rating	Level 6, 60% Recognition Level (Wealth)	Level 4, 100% Recognition Level	Level 2, 125% Recognition Level (AAA Empowerdex)	Level 3, 110% Recognition Level (AA Empowerdex)	N/A	N/A

It must be pointed out that the study hoped to incorporate the needs and challenges of a couple of listed entities. Despite formal approaches being made to three companies, no interviews were forthcoming.

6. The Preferential Procurement ‘Best Practice’ Framework

6.1 Introduction

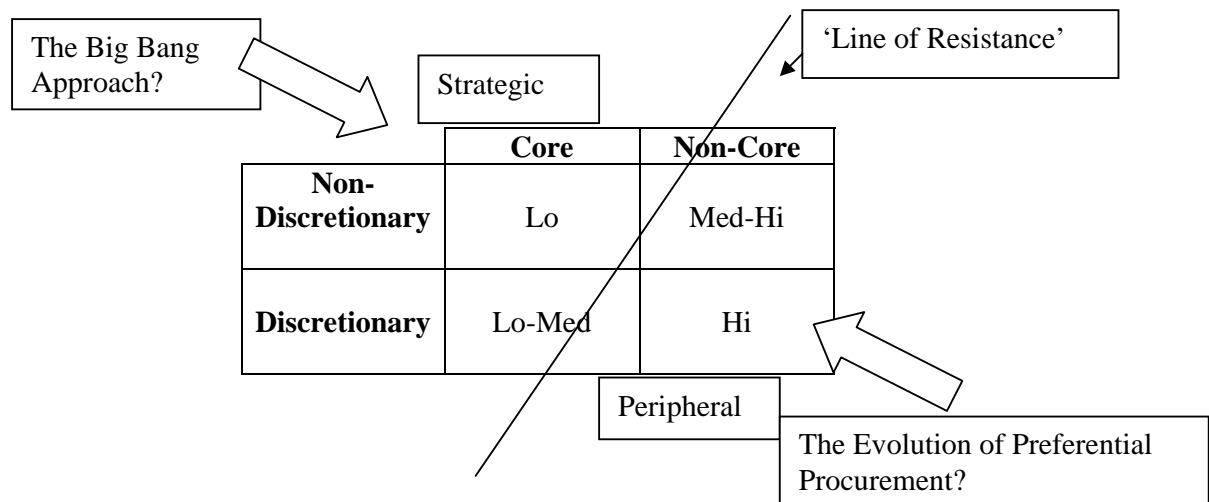
In attempting to formulate a degree of structure and logic to the concept of Preferential Procurement in the South African context, the researcher developed a best practice framework as a point of reference and subsequently refined it after the interviews had been conducted. This is shown on the next page. The questions relevant to each component of the framework can be found in Appendix B. The researcher was also required to address specified questions as shown in Appendix A.

The interpreted responses have been assigned by the researcher on the basis of a Likert scale according to his interpretation of the responses to the Appendix A and B questions.

6.2. The Fundamental South African Challenge

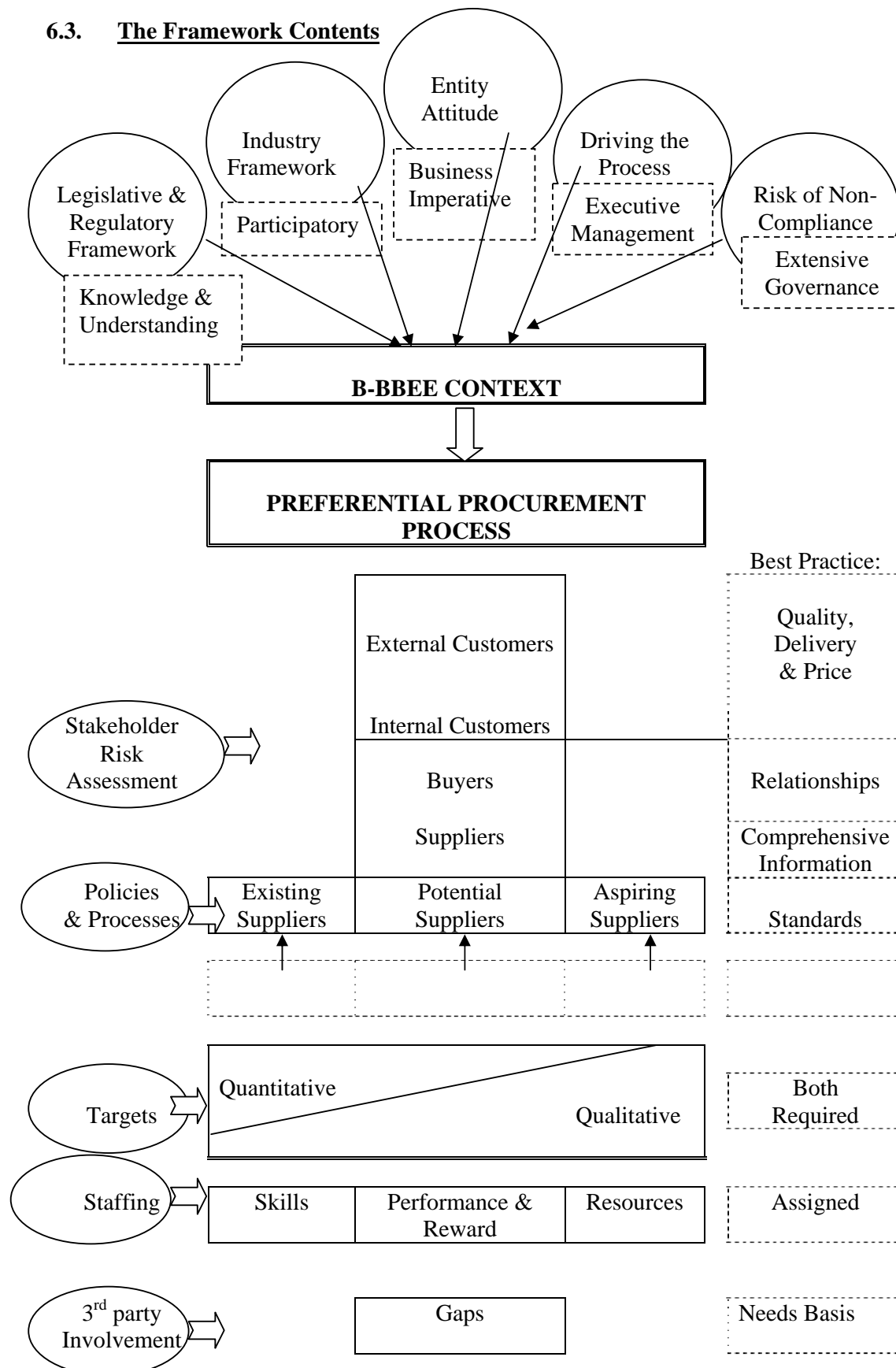
At this point, it is perhaps appropriate to reflect on the current conceptual *status quo* insofar as preferential procurement is concerned. The matrix below attempts to show the perceived potential for preferential procurement to make its mark on the economic landscape. In effect, it is showing that where purchases are classified as core and characterised as non-discretionary, there is *low potential*, unless one encounters a ‘big bang’ approach of a major BEE takeover of an established supplier.

Consequently, most preferential procurement activities start off their lives in the discretionary, non-core quadrant (labelled as high potential). The problem with this, is it simply perpetuates the focus on peripheral activities, as some companies are wary about moving into the other quadrants due to the higher perceived risk. Hence there is an unspoken ‘line of resistance’.



Only time will tell as to how quickly the line of resistance will disappear and whether or not an even spread will develop around the matrix, as opposed to the current skewed weighting towards the bottom right hand quadrant. What follows in the research findings, will hopefully shed some light as to how this will be achieved.

6.3. The Framework Contents



- Note:
1. The circles identify key issues to be addressed
 2. The dashed squares recognize 'best practice' principles

6.3.1. B-BBEE Context

Issue	Best Practice Manifestation	n/a	Likert Scale					Interpretation	Ave
i. Legislative & Regulatory Framework	Knowledge & Understanding		1	2	3	4	5	1=Poor 3=Ave 5=In-Depth	
	No of Responses				1	1	4	$(1 \times 3 + 1 \times 4 + 4 \times 5)/6 =$	4.50
ii. Industry Framework	Participation in industry transformation (e.g. drafting of charter)		1	2	3	4	5	1=No 3=Indirectly 5=Directly	
	No of Responses	2	1		2		1		3.00
iii. Entity Attitude	Commitment and 'buy-in' to a business imperative		1	2	3	4	5	1=Wait & See 3=Some Progress 5=Full	
	No of Responses					1	5		4.83
iv. Driving the process	3 rd Party Involvement (e.g. consultants)		1	2	3	4	5	1=Full 3=Substantial 5=Needs basis	
	No of Responses				3		3		4.00
v. Risk of Non-Compliance (RONC)	Governance Procedures		1	2	3	4	5	1=Lip Service 3=External Verify 5=Extensive	
	No of Responses				2	2	2		4.00

i. Legislative & Regulatory Framework (Benchmark Score 4.5/5, Rank 2)

It is clear that this is becoming increasingly complex. The most frequently cited pieces of legislation were the Broad-Based Black Economic Empowerment Act, No 53 of 2003 Act and the Employment Equity Act insofar as the private sector entities were concerned. The public sector has even more laws and regulations to contend with, notably the Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), Public Finance Management Act, 1999 (PFMA), Public Service Act (Act no 103 of 1994) (PSA), the National Treasury's Supply Chain Management Guidelines and the Broad-Based Black Economic Empowerment Act, No 53 of 2003. In addition both public sector entities make reference to the Proudly South African Campaign.

One private sector manager noted, "we had an idea of how to do it, but no resources and time. The interpretation of the codes seems to overwhelm you. Understanding of the legislation is onerous and the timeframe sometimes a bit unreasonable. Certain groups feel alienated and say that this cannot go on forever".

A public sector manager had this to say, "Each Act by itself is not complex. The difficulty comes in when trying to tie them together and make reference to what you need to make a decision about – i.e. what pieces of the legislation or regulations are relevant to us".

Nevertheless, the great majority of the entities expressed in-depth knowledge of the legislation and derived a benchmark score of 4.5. Interestingly the one private sector organization that expressed an average knowledge, said "we haven't had 'to do BEE' – we have it already. In a sense it is by accident, not by design".

ii. Industry Framework (Benchmark Score 3/5, Rank 5)

Only one private sector organization was part of an industry that had drafted an industry charter and had also participated in its drafting. Interestingly the researcher's opinion was that this company showed the highest overall 'all-round' perspective on B-BEE. The company which stated 'No' to this aspect, had decided that the generic codes would suffice, as there were only two players in the industry.

The balance of the firms said that they would refer to the process through their industry associations, which tends to suggest a passive approach to the shaping of the industry charter.

In the researcher's opinion this tends to reflect a possible negative connotation of a lack of industry collaboration. Best practice tends to suggest that there should be a sharing and exchange of ideas and experiences. The single company that had participated in the drafting of an industry charter, confirmed the benefit that they derived from sharing information with other industry players.

iii. Entity Attitude (Benchmark Score 4.83/5, Rank 1)

The researcher could probably stop here and conclude that perhaps not unexpectedly, this is the key finding. Whilst certain cynics may question the motives and bona fides of some of the surveyed companies, the same message came through consistently by all entities surveyed, namely this is a business imperative. Whilst some make reference to redressing the wrongs of the past, this is always the subordinate reason. This finding is consistent with the earlier references made to BSR (refer to page 4).

Some of the more interesting quotes pertaining to this issue were:

"Our thinking on these codes is that they are 'development driven' rather than 'compliance driven'. The spirit of BEE states there are 7 areas where you can make a contribution. For most businesses you can make an impact in the 7 areas. But it all comes down to the manner in which you interpret the codes and how you implement them".

"BEE is meant to change your behaviour and not your mind!" However, the researcher submits that a favourable mindset, will always ensure a positive outcome. One of the most powerful messages, which illustrate the latter point, was by one private sector entity, which said "we do not in fact use the word 'comply' in our vocabulary. This is a strategic imperative because it makes business sense. Our attitude towards it comes from our background. Being a bunch of engineers, when we take on challenges we want it to work out in the end". Some companies also stress that for them it is a source of competitive advantage. One bluntly stated, "This is a beneficiary organization, i.e. we are a BEE company. This is not a white company that needs to benefit. We will do whatever we need to do to make us more competitive".

iv. Driving the Process (Benchmark Score 4.00/5, Rank 3=)

The thrust of this issue is the extent to which the organization can go it alone or have to resort to external parties to assist (e.g. consultants). The general sentiment is that it is possible to achieve most of the requirements of BEE by using in-house skills and consultants should only be used on a needs basis. Two of the private sector firms had used consultants quite substantially. The other two made the point that they were used reluctantly and one in particular stressed that they were used as a last resort. What was noticeable about that

particular organization was in the researcher's opinion the existence of a 'change agent'. It appears that this manager was appointed specifically to bring these skills into the organization.

Another organization, ensures a broad based approach amongst its senior management where the 7 elements of B-BBEE have been allocated to individuals in line with departmental functions, as follows:

Code 100: Company Secretary
Code 200: Executive Chairman & Chief Operating Officer
Code 300:} Training and Development Mgr & OD Adviser
Code 400:}
Code 500:} GM (Finance) & Materials Mgr
Code 600:}
Code 700:}

The B-BBEE Committee is chaired by GM Engineering, who reports to the Strategic Committee chaired by Chief Operating Officer who in turn reports to Executive Chairman.

They also reported limited usage of consultants.

v. Risk of Non-Compliance (Benchmark Score 4/5, Rank 3=)

To the researcher this was one of the most interesting findings and confirmed the situation of there not being a 'one size fits all' scenario.

As was pointed out by a private sector manager to the researcher, there are two parties to a BEE focus, namely the 'instigator' and the 'beneficiary', respectively.

Public sector organizations are primarily instigators. However, private sector organizations can be both instigators and beneficiaries. This gives rise to the potential for exploitation and corrupt practices, particularly if the relationship is likely to have a profound impact on the business model. It implies that verification agencies have a critical role to play in the process and a number of companies expressed some concern about the slow pace in getting these confirmed.

Nevertheless is it sufficient to rely on external verifiers alone? Best practice suggests that entities have an extensive verification process, which includes both external parties and internal resources (e.g. internal audit function). As noted by one public sector entity, "Unfortunately the unscrupulous operators have not gone away. You verify the structure of the organization, but in reality it has token directors. The company changes its name to an African name as a marketing ploy, but nothing has really changed behind it. They come with a rating certificate, but how credible is it?"

vi. Other Issues Identified Under Context

The surveyed entities were asked where their emphasis lies in the codes and where they could make the most and least impact.

Out of this, the researcher hoped to establish whether for instance, (a) the respondents were driven by the weightings or not, (b) if there is any evidence that some are preferred above others and (c) the extent to which preferential procurement really did get serious attention.

The following table summarises the responses:

Emphasis	Responses
- All are Important	2
- First 3 Codes	1
- All except ownership	1

Most Impact	Responses	Least Impact	Responses
Ownership	1	Ownership	2
Enterprise Development	1	Residual	2
Preferential Procurement	2		

Best practice tends to suggest therefore that if you are going to commit to ‘doing B-BBEE’, you might as well go the whole way i.e. given recognition to all of the codes, rather than just focusing on a couple. The single foreign-owned entity (which cannot address the ownership component for obvious reasons), indicated that they welcomed the advent of B-BBEE because it now ‘levelled the playing field’. However, they also acknowledged that if ownership were not something they could fundamentally address, then they would have to compensate for that in the other codes.

It would appear that the entities surveyed are not ‘weightings driven’ nor is there a preference or preponderance except perhaps for the residual element. One comment made was that the Residual was the easiest to address as it literally could be outsourced to any number of firms who had now emerged and offered “to do it for you”. The opinion that was also expressed was that the code’s intended spend was insufficient and hence if it was stipulated to be a higher amount, then companies “might be more serious about where their money is going!” Perhaps there is also a simpler explanation in that the impact of the residual element might be more difficult to measure than the other six codes, which tend to be closer to home. However, what is clear from the above is that preferential procurement is ranked quite highly in terms of impact. Hence one can expect that increased pressure will be brought to bear onto suppliers to become BEE compliant.

The public sector organizations did not offer an emphasis, but both indicated that they would make the biggest impact in preferential procurement. This is not surprising given the government’s intention of using the buying power might of the public sector to drive economic transformation.

6.3.2. Preferential Procurement Process Dynamics

Issue	Best Practice Manifestation	n/a	Likert Scale					Interpretation	Ave
i. Stakeholder Risk Assessment	Undertaken assessment and derived appropriate responses to deal with stakeholders’ concerns (external customers, internal customers, buyers and suppliers)		1	2	3	4	5	1=Not at all 3=Partial 5=Comprehensive	
	No of Responses				1	4	1		4.00

ii. Supplier database	Up to date and comprehensive supplier database		1	2	3	4	5	1=No 3=Partial 5=Yes	
	No of Responses				5	1			3.16
iii. Policies & Processes	Different policies and processes formulated to deal with separate categories of suppliers:								
	- Existing		1	2	3	4	5	1=Coerce 2=Stick & carrot 3=Encourage	
	No of responses						6		5.00
	- Potential		1	2	3	4	5	1=Passive 2=Some effort made 3=Actively seek	
	No of responses			3	1	2			2.83
	- Aspiring		1	2	3	4	5	1=Passive 2=Some effort made 3=Develop in a finite time frame	
	No of responses				3	3			3.50
iv. Targets	Formulated targets that give recognition to the different categories and classes of suppliers:							1=No 3=Partial 5=Comprehensive	
	- Quantitatively		1	2	3	4	5		
	- Qualitatively		1	2	3	4	5		
	No of Responses				6				3.00
v. Staffing	Assigned staff are given appropriate training, rewards and resources to support the preferential procurement process		1	2	3	4	5	1=No 3=Sometimes 5=Yes	
	No of Responses			2	2	2			3.00
vi. 3 rd Party Involvement	Have developed a network of facilitators who we can draw upon to assist on a needs basis		1	2	3	4	5	1=No 3=To some extent 5=Yes	
	No of Responses				4	2			3.33

Note: The above manifestations can be broken down further if deemed necessary e.g. (i) by stakeholder, or (v) assess training, rewards and resources separately.

i. Stakeholder Risk Assessment (Benchmark Score 4/5, Rank = 2)

In the context of BEE, the term risk assessment is sometimes perceived as having negative connotations. However, business sense always says that in a time of change, it is imperative

that an entity recognizes where these changes are likely to impact positively, neutrally or negatively on their operations so that appropriate responses can be made.

As with most external issues, there will be some who view B-BBEE as an opportunity and others a threat. The latter point did emerge on a few occasions. It is still an unfortunate reality in South Africa that race is an issue amongst some people, but if one wants to have a constructive outcome the message seems to be that it should be confronted in a positive way.

The researcher was shown some documentation, normally in the form of e-mails, where suppliers (mostly white) accused the organization and the procurement section, of racism on account of preferential procurement policies. On the other hand, there were also instances outlined where suppliers (mostly black) questioned why they were required to go through tender procedures when they should automatically get the contract, as they were truly BEE. In between the extremes of perceived racism and perceived entitlement, the procurement function has to chart a path, which meets the organizations requirements of quality, delivery and price in a fair, transparent and ethical manner. No easy challenge.

The most interesting entity from a stakeholder point of view was the University given its vast range of stakeholders – academics, students, administration staff, unions, various committees namely audit, finance, as well as colleges, faculties and schools. A decision has been made to centralise the procurement function, which by itself has led to a certain degree of criticism from those who feel that schools should be able to make their own procurement decisions. The centralisation/decentralisation debate often brings in the innuendos about lack of trust, increased inefficiency and so on.

In the private sector, things always look to be a little more straightforward than the public sector, perhaps because the business imperative outweighs accommodation of stakeholders.

However, there were some useful examples from the private sector, which in the final analysis, all come down to communication and inclusiveness. For instance, one company hosted a workshop and invited suppliers to attend where they laid out what their preferential procurement strategy was. Another has a strict open-door policy where suppliers are free to visit and discuss their concerns.

Some of the risks, which were identified in the course of the interviews, were:

- External Customers:
 - your B-BBEE status (i.e. you are a supplier to them)
 - if you change a substantial supplier, what the reaction of your customer might be
- Internal Customers:
 - if you change a substantial supplier, what the reaction of the internal customer might be
 - questioning integrity of colleagues in the procurement process
- Buyers:
 - removing them from their comfort zone of existing supplier relationships
 - additional workload around information requirements and verification procedures
- Suppliers:
 - meet quality, safety, delivery and price standards
 - meet BEE requirements

- dealing with long time suppliers who don't want to change, because there is no incentive for them to do so
- dealing with a supplier who is more powerful than you
- committing to a supplier who is a new entrant and does not have a track record
- applying the philosophy of 'no free lunch' when the supplier does in fact, need your support in the start-up phase

That this risk assessment should not be taken lightly, was illustrated by one company who at the time the research interview was being conducted, was engaging one of their large suppliers about the latter being named by the Dept of Labour as not having submitted their employment equity report on time. The company in question claimed that it was a misunderstanding, however, it had the effect of a more detailed assessment being done on their BEE credentials.

This assessment also gave rise to a discussion on the odd occasion as to whether you get rated first and then do your strategy or vice-versa. Most go with the former as it enables gaps to be identified.

ii. **Supplier Database (Benchmark Score 3.16/5, Rank = 5)**

The key issue here was how well do you know your suppliers? This also gives rise to a risk assessment implication, however, this aspect was identified as such an important characteristic of any preferential procurement strategy, it was deemed essential that it be dealt with in its own right and on its own merits.

The requirements involved in sourcing this information and ensuring that it remains up to date, and is verified are not to be underestimated. One company noted that it took them eight months to obtain the information about their suppliers from their own buyers.

The University lamented that it did not have a proper supplier database and so had to resort to its creditor lists as a surrogate. They are currently reviewing a software system called 'Purco B-BBEE toolkit' which, is intended to be used by all Universities and will provide a single database of all higher education institutions' supplier B-BBEE status.

Most companies acknowledged that their databases did not give them the comprehensive information that was needed and more effort and resources were required in this regard. Most report on ownership only, with some having a gender and disability breakdown.

One of the better-resourced companies in terms of procurement information, had the latter freely available on the intranet and it was regularly updated and communicated. More specifically, was the approved vendor list indicating the BEE status of the respective suppliers. Recently another company had asked to view their system so they could apply it in their circumstances.

In the opinion of one company, the ideal situation for them would display the following:

Supplier	12 mth spend	Rated	Who	Rating	Weighting	Our business as % of their business
XX etc						
YY etc						

One company went further and reported monthly 'spend by region' as a percentage of total spend.

The issue here is always a rhetorical one, namely ‘how long is a piece of string?’, but in the researcher’s opinion, this is an area that should not be compromised. In today’s age of web-based systems, it is reasonably easy to capture information on-line, into a template. The company can also provide a facility to assist SMEs who may not have on-line access.

Random audits and personal visits can then be undertaken (as some of the surveyed companies do) to assess the credentials of the supplier.

The researcher also feels that this has important implications in relation to enterprise development, as it would give the company the opportunity to identify active, periodic and non-active SMEs and perhaps investigate if there are impediments preventing them from doing business with the large entity that can be reasonably addressed.

It is also important to note that both public sector institutions expressed some reservation about the rating agencies scores. Whilst they made the point that they did not deny that some of them were doing a good job, it once again confirmed that companies should not rely solely on external verification if they are truly committed to the goal of broad based preferential procurement.

One of the most valid points made though was “yes, a comprehensive supplier database would be a good tool to have, but a tool we can easily upload. There is no point in doing it as a ‘bolt on’ to an existing system – which then requires excessive manipulation and interpretation”.

The researcher is surprised at the low ranking, but expects that it will increase in the future.

iii. Policies and Processes

This contains a number of components, namely pre-qualifying and qualifying criteria and processes involved in appointing suppliers.

It is clear from the responses shown that both public sector organizations have very rigid policies and processes to the point of being pedantic. This is understandable, given that they are entrusted with public funds. eThekwin in particular have three committees all involving different people, namely ‘bid specification’, bid evaluation’ and ‘bid adjudication’. The entire process can take up to 2 months to complete from beginning to end. They stress that there are three components namely functionality, price and BEE points on a 90/10 or 80/20 weighting depending on the value of the contract.

Whilst the private sector firms had their stated policies, it is clear that they tend to be far more flexible in their dealings. This aspect is understandable, where speed and efficiency are the order of the day in terms of the commercial imperative.

The researcher identified three categories of suppliers namely existing, potential and aspiring:

(a) Existing Suppliers (Benchmark Score 5/5, Rank = 1)

Insofar as the existing suppliers who are not BEE compliant are concerned, the message that was absolutely consistent across all the companies was that they firmly encourage their suppliers to comply within a reasonable timeframe. At this stage, no company saw any point in threatening their suppliers or applying punitive measures as a consequence of their lack of compliance. Whilst they conceded that non-compliant ones could not go on indefinitely, and

down the line they may have to resort to 'strong arm tactics', they stressed yet again that they were confident that it would not come to that. In fact, some have told their suppliers that they will assist them in their compliancy endeavours, as it will bring future benefits to everybody.

(b) Potential Suppliers (Benchmark Score 2.83/5, Rank = 8)

For potential suppliers, in most cases, the BEE status is a pre-requisite of becoming a new supplier. If it falls under the definition of 'critical supply', then a technical audit is undertaken. The area of 'critical supply' is very problematic due to skills shortage and confirms the need for skills and enterprise development.

There has been some movement in this area, but most companies confirmed that this is a very difficult issue to address. In the researcher's opinion, it confirms the need for greater collaboration by companies. There are some important lessons to be learnt from the Richards Bay area where they have both a 'Chief Executive Forum' as well as a 'CSI Forum' that meets regularly to discuss issues of common concern and identify where they can collaborate. For instance from this process, it was confirmed the need to set up a college to address the shortage of artisan and technicians who are leaving the country.

RBCT is also a founder member of the Zululand Business Development Centre. One of the managers had this to say in the interview, "Once we started this development forum, my vendor list was pooled, verified and accredited. We also discovered that 80% of our lists were the same. As soon as they did that, I didn't need my Excel list anymore. We now have one centre that we can knock on the door to get advice and it confirms the benefit of sharing information on this".

Some companies indicated an active approach to the seeking of potential suppliers but others conceded they were still tending towards the passive phase and could do more.

The example of Gold Circle indicated that with some creativity and a different way of approaching it, potential suppliers could be sought. For instance, they have a specific person who seeks out BEE companies; they have advertised, gone outside of the region to find suppliers and used BEE companies at high profile events.

(c) Aspiring Suppliers (Benchmark Score 3.50/5, Rank = 3)

Aspiring suppliers are classified as SMEs, particularly black owned, who may be an existing or potential supplier but have aspirations of becoming a bigger supplier or moving into the more substantive quadrants, identified in the matrix shown earlier. There is a clear development focus here that borders on enterprise development initiatives and falls under the definition of a 'vertical linkage'. It should be noted, that no company interviewed made reference to the factoring benefit available, "Where a Measured Entity can demonstrate that it procures goods and services directly from a Supplier, which is also a recipient of enterprise development contributions to BEE made by the Measured Entity and which are recognized in terms of any statement in Code 600, all BEE Procurement Spend from that Supplier shall be multiplied by a factor of 1.2 when calculating the BEE Procurement Spend of the Measured Entity".¹⁴

The researcher's sense is that the public sector tends to be a little harder on the timeline of development. For instance, eThekweni state that three years is enough and after that the entity should be treated like any other normal supplier.

¹⁴ Key Measurement Principle 6.3, Section 9(5): Codes of Good Practice, 2005, DTI, pg 500-4,

The private sector entities all stressed that there is no 'free lunch' and business principles apply, consistent with best practice. However, it was also clear to the researcher that the surveyed companies had more than a passing interest in their aspiring suppliers. More often than not there was a fair investment of management time in the operations of these businesses. Clearly they want them to succeed, but there is always the potential danger that both entities enter into a 'comfort zone' of using each other as the thought of going through the exercise with another entity from scratch is too much of a 'hassle factor'.

In the context of vertical linkages, there were three clear examples of companies who had outsourced previous in-house activities to black owned SMEs and/or former employees. The process that one adopted was as follows:

- Business process mapping
- Analyze and define "core"
- Undertake feasibility study (cost/benefit)
- Compile scope of work
- Identify possible service providers and send out enquiries
- Adjudication including reviewing of initial business plan
- Conclude outsource agreement/contract

Whilst a number of these outsourcing arrangements would be defined as peripheral activities, it nevertheless demonstrates a commitment to enterprise development.

Activities included the normal cleaning, gardening and security services, but there were also more substantive examples of laboratory testing (this company had now relocated to Johannesburg and had many clients) and engineering services. In all cases there was strong evidence of mentoring and management time on the part of the company to assist the SME.

One clear success story was an instance where the initial hands-off approach to a BEE supplier company comprising their former employees almost proved fatal to the business. The company then agreed to provide financial assistance subject to certain conditions:

- Monthly meeting to discuss and review performance
- Open book policy to enable them to review financial and business performance and give appropriate feedback
- Extensive training to all shareholders (some of whom are illiterate)
- Analyse their business and commercial processes and convert to best practice:
 - shareholders agreement
 - reporting structure
 - segregation of duties
 - approval framework
 - functional responsibilities including high level KPA's
 - business ethics
 - productivity improvement

This BEE supplier has now recorded a profit of about R1million and appears to have turned the corner. The company has stressed that they strive not to make any BEE supplier totally dependent on them and are now encouraging this business to seek additional/alternative sources of business. However, they did confirm that it might require that this BEE supplier bring in an entrepreneurial partner who has some marketing flair.

Of course this begs the question, where do you draw the line? On the one hand some critics may argue that a false situation has been created as there is still some element of dependency and ultimately who was running the entity. Others would argue that a viable business has been created and the hard work put in by the company has paid off, because they saw the bigger picture.

The Business Support Unit at eThekweni provides advice and support to SMEs who are attempting to obtain contracts from the Council. Workshops are offered and there are dedicated staff of the Unit who are there to assist with queries. One of the priorities that have been recognized though is to provide a simple written guide to aspiring suppliers to help them to understand the process. However, resources are constraining this from happening. Dealing with queries on a face to face basis is often very time intensive, so a simple guide may enable staff to apply the 'by exception' policy i.e. "read this and then by all means contact us for items that you need clarification on".

A whole range of support activities and interventions were given, ranging from use of premises, financial support, to mentoring and training.

What is interesting to note about the specific challenges pertaining to SME suppliers, is that most of these challenges pertain to management issues rather than technical issues. It verifies the tremendous need for business support services to be made available to SMEs in both the public and private sector domain. The hard reality of this is that unless it is addressed, the enterprise development component of B-BBEE will always be compromised.

What also emerged from the public sector analysis was the increasing recognition being given to what might be termed, '2nd Tier Enterprise Development' which will be driven through the procurement activities. Various contract methods, which gives recognition to this, is shown below:

Contract Method with SME	Characteristic	Risk Lies With
Domestic	Left to Principal Contractor to run the process and engage with an SME.	SME
Selected	The SME goes through the Normal Procurement Process, but Principal Contractor will agree to sub-contract if happy with the assessment.	Shared by all parties
Nominated	Instigator nominates SME to engage with Principal Contractor	Instigator

With the 'domestic' method the SME is often at the mercy of the principal contractor and in a developmental type environment this might not be completely desirable unless the principal contractor has a strong enterprise development focus them self. The 'nominated' method is very rarely followed (unless there are very good reasons for doing so) as the risk lies with the instigator who will have to make good to the principal contractor if the SME does not perform. In fact, a case was related to the researcher where the entity was sued by the principal contractor and the former agreed to pay.

The recommended approach is to adopt the 'selected', which has the maximum potential to be a win-win for all parties. It is a competitive process insofar as the SMEs are concerned, but is done in a fair and transparent manner.

It was also reported that on occasions, re-tendering had occurred when there had been insufficient BEE involvement, but it was felt there was scope to include it.

(d) Other types of linkages

A question was also posed around the scope for forward and horizontal linkages. The former pertains to the company formalising a relationship with an SME further along the value chain. Horizontal linkages refer to a group of SMEs forming an alliance or joint venture type arrangement so as to pool resources and derive economies of scale when supplying to the larger entity. Very little activity was reported here.

One company cited six examples of what would be classified as forward linkages where a contract had been obtained from a Government Dept, and these SMEs were looking to the large entity to supply them. In all six cases, the SMEs were not able to fulfil the contract, largely due to working capital constraints. The large entity had assisted with preferential terms, costing and pricing and given management time to the process. Did they go far enough? It could be argued that they did as much as they could do, without actually doing it for them – which would defeat the object of the enterprise development. Again, this is a hard question to answer in relation to 'drawing the line', but it seems a bitter pill to swallow when all six have a contract awarded them and none can deliver.

iv. Targets (Benchmark Score 3/5, Rank = 6=)

All but one of the surveyed entities reported that targets were set and reported at the highest level. However, at this stage the main emphasis is on the ownership status of suppliers with the targets specified as a % of total spend. However, most reported that they will give recognition to B-BBEE codes in 2007 to the extent that this will become the major priority.

One entity confirmed that this was in fact their key focus at the moment and more detailed targets would be set.

The targets set are generally quantitative (percentage spend) and there was little evidence of qualitative targets (increased competitiveness, technology transfer). Any targets set, tended to be related to the large entity itself (e.g. provision of mentoring) as opposed to the preferential supplier (extent to which spend has increased).

One of the disappointing findings of the study (simply because of the researcher's own personal interest in SME development) was the lack of targets specified for SMEs. Certainly one hopes that this situation will be redressed in the future.

Of course it is important to put this into context. Whilst all the entities confirmed that all the codes were important, you also can't do everything at once and in all likelihood the strategic areas will be dealt with first. As one manager stated, "When you ask the question around targets and impacts, I'm thinking impacts in terms of my rating. Where can I get the most benefit from the least effort".

Another said, that the process must be done on the basis of "chewable chunks in a sequential fashion". The focus is firstly on strategic areas of the business.

Returning once again to the discretionary and non-discretionary issue, one company indicated that as a policy they did not accept the concept of non-discretionary spend, unless the item to be purchased was simply not available locally. In other words, any potential local spend is classified as discretionary.

On the other hand, another company felt that it was essential to distinguish between discretionary and non-discretionary. “Procurement is always going to be a moving target. Suddenly one of your suppliers becomes BEE compliant and your score changes for the better and yet you have actually done nothing. I should point out that we source material internationally which is classified as discretionary, and some material locally which is non-discretionary. You have to do the maths properly, otherwise you could end up losing the tender because it is a competitive process”.

v. Staffing (Benchmark Score 3/5, Rank = 6=)

Prior to undertaking this research, based on evidence seen in other studies, the researcher would have suggested that best practice states that a separate unit or dedicated staff should be appointed to address preferential procurement issues. In addition, suggestions have also been made that staff are specifically rewarded and sanctions applied for non-performance.

This study dispels that main suggestion. Whilst some companies have KPAs around BEE, all discard the creation of a separate unit.

Virtually all the entities indicated that staff were assigned and not dedicated, and it was part of the normal procurement function (i.e. their normal workload). No additional rewards are given specifically for BEE activities. Once again the word encouragement was utilised, the end result being a positive outcome, where people ‘buy in’ through a process of consultation and communication. One company is committed to “mission-directed work teams” and have extensive functional measurements and targets in place. Another company has quarterly “culture and climate” meetings where issues are raised and discussed by the employees.

There is no ‘special’ BEE training – but rather any training is approached within the context of the procurement function.

One company noted that B-BBEE required innumeracy in interpreting and reporting on the codes and hence they relied quite extensively on people with finance and accounting backgrounds to unravel it.

As far as resources are concerned, it appears that most companies do not allocate a specific budget for the procurement process. However, being a strategic project, resources can be accessed if required.

The biggest lament from the two public sector entities was the lack of staffing resources allocated to them. So much so, that it in fact compromised some of the things that they wanted to achieve. It was hoped that this situation would be urgently redressed.

vi. 3rd Party Involvement (Benchmark Score 3.33/5, Rank = 4)

There are two categories of companies that emerged here, ones who use 3rd parties reluctantly and the other quite actively. However, there was not a single instance where none were ever used. The key issue appears to be, that they be used on a needs basis once a proper gap analysis has been undertaken.

Two companies are using consultants to help them shape and refine their B-BBEE strategy, others were adamant that they could do it themselves.

However, the researcher did not want to limit 3rd party involvement to consultants. The study also hoped to identify the extent to which relationships had been forged with government agencies and other entities that assist in SME development.

eThekwini probably had the widest network and a number of initiatives are being pursued here, both with private and public sector funding. Richards Bay has the ZBDC, which is used quite extensively by companies in the area.

However, regarding interaction with other agencies, the evidence was very thin. This begs the question, is the government being active enough in marketing its own programmes and resources that are available? It would appear not. Some limited interaction has taken place with the DTI, but virtually no contact was reported with financing agencies and other governmental business support institutions.

Where concerns were also raised was a proper verification system. Again this is something that the government will have to address.

7. Key Challenges - Summary

Each entity surveyed offered a different challenge, so it is useful to summarise them here:

- a. The man in the street to understand why B-BBEE is important. This will hopefully address some of the negative perceptions that still exist so that everybody 'buys in' to what the government is attempting to achieve and is committed to it.
- b. Management and business skills of SMEs. This continues to be a huge impediment to their potential to be mainstreamed into the formal economy.
- c. Broad based ownership. Whilst one respondent noted that "there are a lot of people who have a jaundiced view of this ownership thing, only benefiting the so-called elite and so on, and hence the B-BBEE initiatives are to be welcomed", nevertheless when it comes down to it, our society will only be fully normalised when the majority of people feel that they have meaningful ownership.
- d. Managing expectations by balancing short-term competitive challenges with the long term needs of the country.
- e. Shortage of resources and skills in the large entities themselves.

8. Conclusion

The key findings that emerged from this study and which reflect best practice in the context of preferential procurement:

1. Positive attitude – first and foremost the entities all stressed that it was a business imperative. This came visibly from the top of the organization.
2. Encourage – in implementing preferential procurement, the focus should be strongly on encouragement, whether it is suppliers or staff.
3. Information – whilst this had a relatively low ranking in terms of the current status, the researcher is of the opinion that this situation will change and hence it has now been listed third in order of priority.

There is still significant work that needs to be done in setting of targets, bringing potential suppliers in and resourcing of staff. Insofar as the latter is concerned, best practice strongly suggests that a separate unit is not created, but it is part and parcel of your normal job description. The government will also need to address the verification agencies as soon as possible.

The solutions to the challenges listed earlier, are not easy to achieve, but in the researcher's opinion it comes down to a more collaborative and integrated approach by government, industry associations and various third party service providers (whether commercially driven or NGOs). At the heart of this lies communication and sharing and exchange of ideas, which is precisely what this study has hoped to achieve.

APPENDIX A
MINIMUM QUESTIONS, THE STUDY WAS REQUIRED TO ADDRESS

- For what reasons the corporation is engaging in affirmative/preferential procurement or would wish to increase its affirmative/preferential procurement
- The procurement policies that the corporation has in place and how they were developed
- What targets the corporation has set for BEE procurement
- The pre-qualification and qualification criteria to become a supplier
- The contracting methods to access business or tenders from the corporation
- The types and amounts of core (non-discretionary) and non-core (discretionary) business earmarked for SMEs
- Whether BEE procurement is a high priority, with targets that are set, monitored and reported on at Board level
- How they set targets and monitor and evaluate achievements against these targets
- Whether these targets are set at group, company or unit level, and who is responsible and accountable for the targets at each level
- Whether those responsible for procurement are provided with incentives and high level support for achieving the goals and targets, and what sanctions or consequences arise for non-fulfillment
- What they have achieved in terms of numbers of SME companies coming onto their supplier base
- What challenges they have faced and still face and how they are addressing those challenges, and what assistance may be useful in helping them address these challenges
- What needs they have for advice, design and facilitation of support for their own staff and for the BEE suppliers
- What types of support and interventions the corporation sees as necessary for growing the SME supplier base and for improving the performance of the suppliers they already have
- What services, support and financial support the corporation provides for its suppliers
- Whether they would be willing to work with an external facilitator such as SAIBL, to support the development of the BEE supplier base

APPENDIX B

SAIBL – PREFERENTIAL PROCUREMENT STUDY

PERSONAL INTERVIEW QUESTIONS

A	YOUR BACKGROUND		
1	Industry Sector Classification		
2	Primary Ownership	South African	Foreign
3	Type	Manufacturer	Service
4	Turnover R No of Employees		
5	Main products		
6	Other Info		
B	B-BBEE CONTEXT		
7a	Does your industry have a charter?	Yes	No
7b	If yes, have you participated directly in the drafting of the charter?	Yes	No
7c	If no, what are the industry's intentions?		
8	Who in your organization is responsible for reporting on/ensuring compliance with/ or at the very least, understanding: <ul style="list-style-type: none"> - Competition Act - Employment Equity Act - Preferential Procurement Act - National Empowerment Fund Act - National Small Business Act - Broad Based BEE Act Are there any other Acts that you are required to take cognisance of?		
9	How would you rate the knowledge of B-BBEE issues in your institution? (Circle appropriate response) 1. Poor 2. Average 3. In-depth knowledge		
10a	Level of commitment to BBBEE? (Circle appropriate) 1. Wait and see 2. Ad-hoc 3. Making some moves, but still some way to go 4. Good efforts thus far, but don't have total organizational buy-in 5. Substantial progress and full commitment If none of the above, your own explanation		
10b	Why?		
11	Where does your institution's emphasis lie in the codes? Where do you think you can make the largest impact? The least amount of impact?		
12	Have you been rated?		
13	Score/s?		
14	What does this mean for your institution?		
15	If you don't comply or have a low score, is this likely to have a substantial, limited or insignificant impact on your business? In what way?		

C	PREFERENTIAL PROCUREMENT	
16	<u>The Players</u> Who do you identify as being the stakeholders in this aspect of B-BBEE? Are some likely to encounter negative consequences arising out of this? How are you managing this process?	
17	Hard Data What is your current mix of supplier category, in other words how do you report on the breakdown? (Rand value, quantities etc) Do you perhaps have some visual representation of this, e.g. pie charts, to illustrate this?	
18	What do you intend it to be and by when?	
19	What proportion of the above categories on your supplier list is currently active/non-active? What policies and procedures do you have in place regarding these non-active suppliers?	
20	What Targets have you specified both quantitative (e.g. time, Rand Value, Quantities) and qualitative (e.g. increased competitiveness, technology transfer)?	
	<u>Your Staffing</u>	
21	Do you have dedicated staff to address this?	
22	What are their backgrounds? How did you recruit them? Have you had to offer them specialized training? From whom? What costs have been involved in establishing this 'unit'?	
23	What budget allocation do they have?	
24	How is this budget determined?	
25	How is their performance measured?	
26	What is the reporting structure? Can you draw an organogram?	
	<u>The Process</u>	
27	Are you able to provide a flowchart to indicate processes involved in your preferential procurement activities?	
28	What policies, pre-qualifying and qualifying criteria do you have in place for each of the following categories? - Existing suppliers - Potential suppliers - Aspiring suppliers	
29	Do you adopt a passive (wait and see if any pitch up) or active (go out of our way to find them) approach to black suppliers?	
30	Have you undertaken an activity audit to evaluate which activities currently done in-house can be outsourced?	
31	Which are core and which is non-core?	
32	Motive for doing this?	
33	Would existing employees be given first option?	
34	To what extent have you adopted an integrated approach? <div style="text-align: center;"> <pre> graph TD A[Preferential procurement] --- B[Enterprise development] A --- C[Residual element] B --- C </pre> </div> (Ideally we would like to construct a visual model of this to reflect best practice that shows how they interact and relate to one another).	

	<u>Third Party Involvement</u>	
35	Have you had intermediary involvement in facilitating the process? What have you used them for? Do you see this as being ongoing and necessary? Where do you see the most important roles of the intermediary?	
36	Have you interacted with DTI and other government agencies (e.g. UYF) on any issues, and experiences in this regard?	
37	Have you interacted with financial institutions (e.g. Khula, IDC, Banks) and made use of funding schemes available (e.g. Black Business Supplier Development Programme), and experiences in this regard?	
38	<u>Specific Categories</u> Specific policies in relation to SMEs, Gender, Youth? Specific challenges you have encountered and progress in relation to these?	
	<u>Additional Support</u>	
39	Any special arrangements for the above categories?	
40	Any capacity building programmes with suppliers undertaken using in-house personnel and/or external trainers/mentors etc?	
41	Where have you encountered the greatest need? In which programmes have you obtained the biggest 'bang for your buck'?	
	<u>Linkages</u>	
42	Is there scope for forward linkages? Is there scope for horizontal linkages?	
	<u>Stories</u>	
43	Do you have any 'stories' you can relate about experiences, successes or failures? Any potential case studies which could be written about and placed in the public domain?	
44	<u>Any Other Issues Not Raised Above?</u>	